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SLIDES: 38 Studios Secret Documents - See Copies

Thursday, June 14, 2012
GoLocalProv News Team



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It is clear that documents presented by Curt Schilling's 38 Studios to private investors were fundamentally different than those presented to the State of Rhode Island's Economic Development Corporation. The disclosure documents included in the "deal book" to investment bankers outlined the highest risk in the most speculative of businesses. Many of the leading venture capital groups passed on the opportunity to invest in 38 Studios.

But those documents, key documents that GoLocal was first to publish, offered more tempered language and outlined risk in a nomenclature that was nearly all positive.

For the first time, see the key provisions of the private investor documents.

III. RISK FACTORS

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A. HISTORY

38 Studios has a limited operating history. The likelihood of success of the Company must be considered in the light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with a developing business, and the competitive environment in which 38 Studios operates.

Risk Factors

Documents provided to private investors outlined their entire investment was at risk.

No public document provided to the State of Rhode Island outlined this level of risk.



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June 14, 2012

Bank RI subpoenaed for loans secured by film-tax credits

Rhode Island State Police, FBI are looking at two loans made early this year

By MIKE STANTON JOURNAL STAFF WRITER

Federal law-enforcement subpoenas have gone out in the 38 Studios investigation.

Bank Rhode Island, which loaned \$8.5 million early this year to help Curt Schilling's now-bankrupt video-game company stay afloat, confirmed Wednesday that it received a subpoena for records last Friday.

"We have a deadline, and we'll meet that deadline," says Mark Meiklejohn, president and CEO of Bank RI. "We're fully cooperating."

The Rhode Island Economic Development Corporation, which sold \$75 million in taxpayer-backed bonds to lure 38 Studios to Providence in 2010, also received a federal subpoena Friday requesting records, according to Jonathan Savage, the EDC's lawyer.

The Rhode Island State Police and the FBI are looking at two loans that Bank RI made early this year to companies affiliated with Providence lawyer Michael Corso, a broker in film-tax credits and a friend of House Speaker Gordon Fox.

Corso, who represented 38 Studios, arranged a pivotal 2010 meeting between Schilling and Fox that led legislative leaders to add \$75 million to a \$50-million job-guarantee loan program that was approved by the General Assembly that year. The EDC subsequently sold \$75 million in taxpayer-guaranteed bonds to bring 38 Studios to Rhode Island, with the promise of creating 450 well-paying jobs and sparking a cluster of video-game companies in Providence's Knowledge District.

The Bank RI loans, revealed in a Providence Journal story on June 1, were secured by \$14.3 million in anticipated Rhode Island film-tax credits that 38 Studios had applied for but ultimately never received. As added collateral, Schilling, the ex-Boston Red Sox star and founder of 38 Studios, put up his personal collection of 3,200 gold coins, valued at up to \$5.5 million.

Corso says he loaned the money to 38 Studios to alleviate a cash crunch. Had 38 Studios received the tax credits, for which it had received "initial certification" from the Rhode Island Film & Television Office, Corso had a deal to sell them, for a profit, to Blue Cross & Blue Shield of Rhode Island, to reduce the health insurer's state tax liability.

But Governor Chafee balked at issuing the tax credits after 38 Studios' financial troubles emerged in May. The company subsequently laid off its 400 employees in Rhode Island and Maryland and declared bankruptcy last week, the same day law enforcement confirmed its probe, leaving taxpayers on the hook for \$115 million in state-backed bonds and interest payments.

Corso told The Journal recently that he, along with Schilling, is liable to repay the loans. The initial \$1.5-million loan in January was secured solely by the anticipated tax credits. The second loan, for \$7 million in February, was secured by the tax credits plus Schilling's personal guarantee and gold coins.

Col. Steven G. O'Donnell, superintendent of the state police, said last week that his agency, along with the FBI, U.S. Attorney and Rhode Island attorney general, are investigating "activities that have recently come to light at 38 Studios," including the Bank RI loans.

Jim Martin, a spokesman for U.S. Attorney Peter F. Neronha, confirmed last week that his office is working with the state police and FBI. He declined comment Wednesday.

The federal criminal statute for bank fraud states that it is a crime to obtain money from a financial institution "by means of false or fraudulent pretenses, representations or promises."

38 Studios' court-appointed bankruptcy trustee in Delaware did not respond to a question Wednesday regarding whether law enforcement has sought the firm's financial records.

Corso did not respond to requests for comment Wednesday night regarding whether he, too, has received a subpoena.

Stokes to receive severance

Former EDC director will receive \$63,955 in pay, benefits

By KATE BRAMSON JOURNAL STAFF WRITER

PROVIDENCE — Keith W. Stokes is entitled to receive \$63,955 in severance pay, which includes 13 weeks of pay beyond the date of his departure from the Rhode Island Economic Development Corporation, from which he resigned as executive director amid the financial collapse of Curt Schilling's video-game company.

Stokes' severance package — including \$46,250 in extra salary — is outlined in a separation agreement he signed with the state agency on June 6, according to records released by the EDC in response to a public-records request from The Providence Journal.

The total amount of severance includes medical and dental benefits and accrued vacation and personal time, EDC spokeswoman Judy Chong said Wednesday.

In return for that severance, Stokes agreed not to disclose any confidential information about the EDC and not to make any derogatory or disparaging comments about the agency, the state of Rhode Island, the governor or the governor's office — “in any manner to any person or electronically through any social media or otherwise,” the statement says. In addition, Stokes agreed not to sue or to allow anyone on his behalf to sue the agency with regard to any claims arising out of his employment or termination.

The severance benefits will terminate, the agreement says, if Stokes begins working “with an agency, department or instrumentality of the State of Rhode Island, including without limitation any office of the General Assembly, the Department of Administration, or any public or quasi-public agency (but not including any municipality or agency thereof).”

Stokes, 53, did not return calls for comment.

The agreement entitles Stokes to payment for accrued but unused vacation time through Aug. 15 of this year and for any personal time accrued through the date he left the agency, which was May 16. That was the day the EDC held an emergency meeting with Schilling to discuss finances and his efforts to secure additional investment for his company, 38 Studios.

When Stokes resigned, he was earning an annual salary of \$185,000 with a \$400 monthly automobile allowance, the same terms under which he accepted the position of executive director of the agency back in January 2010. Then-Gov. Donald L. Carcieri hired Stokes, and Governor Chafee decided a year later to retain him as director of the agency charged with creating and retaining jobs.

The separation agreement, dated May 24, said Stokes had at least 21 days to consider whether to agree to its terms. He was allowed to revoke the agreement for seven days following the June 6 date on which he signed it.

The agreement outlines that Stokes will be paid those 13 weeks of severance in biweekly installments beginning the week after his resignation and as part of the company's payroll.

A 2010 letter about his hiring notes that Stokes was eligible for 15 days of vacation that July. That letter also notes that 5 personal days and 12 sick days were to be awarded annually on July 1. He also earned 10 paid holidays each calendar year.

June 15, 2012

38 STUDIOS

By filing lawsuit, Citizens joins list of creditors

Bank seeks \$2.4 million from Curt Schilling and his bankrupt video-game company

PROVIDENCE — Citizens Bank has sued Curt Schilling, seeking \$2.4 million from the ex-baseball player and founder of video-game company 38 Studios LLC.

Providence-based Citizens filed the lawsuit last week in Suffolk Superior Court in Boston under its parent name of RBS Citizens. The bank now joins a list of other creditors seeking money from Schilling and his company.

Rhode Island officials persuaded Schilling to bring 38 Studios and hundreds of employees to Providence in 2011 with a \$75-million loan guarantee. The company filed for Chapter 7 federal bankruptcy earlier this month, leaving the state on the hook for up to \$102 million in bond-related payments tied to that loan.

Citizens sued Schilling, of Medfield, Mass., June 7 in Massachusetts state court in an attempt to recoup its money from the ex-ballplayer's personal assets. The lawsuit also names as a defendant Morgan Stanley Smith Barney, where it believes Schilling has personal financial accounts. Citizens filed its lawsuit the same day that 38 Studios filed for bankruptcy in anticipation of liquidating the company.

Citizens asserts that the money includes a \$2-million letter of credit for 38 Studios, backed by Schilling, and nearly \$374,000 due on the company's corporate credit card. Schilling drew \$371,484.40 on the credit letter May 21, just three days after the company made good on a \$1.1-million overdue payment to Rhode Island.

38 STUDIOS Labor officials suspend 38 Studios probe

The Rhode Island Department of Labor and Training has suspended its investigation into whether 38 Studios employees were not paid in the weeks after the company missed a \$1.12-million payment to the state on May 1.

That's because of the company's bankruptcy filing, spokeswoman Laura Hart said Thursday. Unpaid wage claims become a matter for the courts when a company declares bankruptcy or is placed into receivership, Hart has said.

A suspension doesn't mean the investigation is closed, she said. State law prevents the department from talking more about such an investigation until it is closed.

"I still can't confirm if we received any complaints on unpaid wages of 38 Studios," Hart said.

June 18, 2012

Schilling takes leave from ESPN

ASSOCIATED PRESS

BRISTOL, Conn. — Curt Schilling is taking a leave of absence from his job as an analyst for ESPN after his video gaming company filed for bankruptcy.

ESPN spokesman Mike Soltys says on Twitter that the network and retired pitcher “mutually agreed” to the leave as he works through “his business issues.” He says Schilling is expected to return to the air later this season.

Schilling’s 38 Studios filed for bankruptcy June 7. Federal and state authorities launched probes into the studios, which received a \$75-million loan guarantee deal from the State of Rhode Island.

The three-time World Series champion was hired by ESPN two years ago.

38 Studios Insider Gets \$625k in New Film Tax Credits

Tuesday, June 19, 2012

The Providence lawyer who pledged more than \$14 million in Rhode Island motion picture tax credits that had not actually been issued as collateral in order to obtain an \$8.5 million loan for Curt Schilling's 38 Studios is now playing a behind-the-scenes role in a Michael Corrente movie that is slated to receive \$625,000 in state tax credits, GoLocalProv has learned.

Michael Corso, a top tax credit broker whose loan agreement with BankRI is among several 38 Studios-related matters currently being investigated by state and federal authorities, is one of seven producers for "Backmask," a horror film currently being shot in Exeter, according to IMDB. Corso's business partner, Anthony Gudas, is listed as the executive producer and former State Rep. John Loughlin has a small role in the film.

On Monday, the Rhode Island Film and TV Office confirmed the film has received an "Initial Certification Letter" for the tax credits. Corso did not respond to a request for comment.

"They go to the Same Crew of People"

The news that Corso is associated with another entity set to receive tax credits came as no surprise to several critics who say the film tax program only benefits a small number of connected individuals.

"They just go to the same crew of people," said State Representative Charlene Lima. "Without any transparency, people don't see how it's only the connected people that are the ones getting all the tax credits."

"Backmask" isn't the only local film Corso has helped produce in recent years. In fact, he is listed as the executive producer for "Loosies" and "Inkubas," two movies that combined to receive over \$300,000 in local tax credits since 2010. Records filed with the Secretary of State's office show Corso also sold tax credits for those two films and "Infected," which received 640,185 in credits from the state.

Corso's role in the movie industry stretches far beyond Rhode Island. Since 2010, he has been tagged as a producer for more than 20 films. His business, Sakonnet Capital Partners, has helped broker tax credit deals for the majority of those films, according to IMDB.

For Lima, Corso's connections to the industry are evidence enough that changes need to be made to the way the state doles out tax credits. She said she believes a list of entities seeking credits should be kept by the Attorney General's office and that the same groups or individuals should not be allowed to collect the majority of the available credits.

Lima introduced an amendment during this year's budget debate that she says would have reformed the tax credit system, but it failed to gain enough support from her colleagues. Lima said she also believes companies should be forced to reveal more about their finances and personnel if they are seeking tax credits.

"Right now it's just a favor factory," Lima said. "I think a lot of people share the same frustrations I have. We need to change the whole system because right now, it just feeds the well-connected."

Corso at Center of 38 Studios Deal

A more open process could have also prevented Rhode Islanders from being stuck with the tab to cover the collapse of 38 Studios, according to Lima.

Corso was at the center of the 2010 deal that brought Schilling's company to the Ocean State. In March of that year, former Economic Development Corporation (EDC) executive director Keith Stokes and House Speaker Gordon (a close friend of Corso's) met with Schilling and 38 Studios director Tom Zaccagnino about bringing the video game company to Rhode Island.

Two months later, the General Assembly approved legislation that expanded the EDC's Job Creation Guaranty Program from \$50-\$125 million. By July of that year, the EDC's board had signed off on a plan to award 38 Studios a \$75 million loan guarantee.

At the time of the deal, Schilling said that he was not moving his company to Rhode Island simply to seek tax credits, but that's exactly what he did less than a year after moving into 38 Studios' downtown headquarters.

In January, Corso secured an \$8.5 million loan from BankRI by putting up \$14.3 million in film tax credits as collateral. Corso and Schilling now claim the state renegeed on a deal for the credits after the company failed to make a \$1.125 million payment due to the EDC on May 1.

38 Studios filed for bankruptcy earlier this month, several weeks after laying off every single employee. The company owes creditors more than \$150 million and has less than \$22 million in assets.

Suspend the Tax Credits

For some good government and tax policy groups, reforms to the tax credit system like the ones proposed by Lima need to take place before the state dishes out anymore funds.

Specifically, any project that has connections to Corso should be halted for the time being, according to Ocean State Tea Party in Action president Lisa Blais.

"While the rule is innocent until proven guilty, the fact that this insider's name keeps popping up with tax credits should be create enough question to pause," she said. "It also underscores that presumably many 'non-VIPs' have been turned away for tax credits to start or grow business or generate economic activity in other ways in RI."

Late last month, Rhode Island Statewide Coalition (RISC) executive director Donna Perry also called for a suspension of the tax credit program.

"In light of all the unanswered questions, it seems only reasonable and fair to the taxpayers that the Governor freezes the film tax credit program and orders a full accounting of how the EDC provides oversight to the loan guarantee program across the board," Perry said.

Watson: AG Kilmartin too close to action to investigate 38 Studios

Posted 6/20/2012 1:03:26 PM
Updated 6/20/2012 4:09:11 PM

Outgoing State Representative Bob Watson (R, East Greenwich) says that Attorney General Peter Kilmartin's office would not be able to investigate the situation with 38 Studios and the Rhode Island Economic Development Corporation because Kilmartin was too close to House leadership when the deal was passed.

"I'm not trying to suggest that the Attorney General has something to hide or that he has got a problem. I'm just suggesting that perhaps if he was so close to the action that if he is now called on to investigate they may be a conflict such that he would have to remove himself," Watson told WPRO's Dan Yorke. Watson said he is not suggesting that Kilmartin has any criminal wrongdoing in the matter but said "what I would say is when you endeavor to try to make money off of tax payer money and you screw up so obvious you pay a political price."

Kilmartin was the Majority Whip in the RI House of Representatives when the \$75 million loan to Curt Schilling's video game company from the RI EDC was approved.

Dee DeQuattro | WPRO News

38 studios investigation moves forward

No timetable for tracing the long money trail

Updated: Wednesday, 20 Jun 2012, 11:35 PM EDT
Published: Wednesday, 20 Jun 2012, 9:51 PM EDT

• By Walt Blumau, Target T2 Investigator

PROVIDENCE, R.I., (WPRI) The investigation into the 38 Studios money trail is inching forward with Rhode Island State Police detectives from another high profile white collar crime investigation now reassigned to the case involving Curt Schilling's company.

State Police Colonel Steven O'Donnell said the two detectives were part of the team of six detectives, unraveling the details surrounding how the Institute for International Sport spent millions in state and private grant money.

Colonel O'Donnell said the main focus in the 38 Studios case continues to be the \$75 million loan guarantee, granted by the Economic Development Corporation to Curt Schilling's company in July of 2010.

"We always look at the money trail. When the money comes in, (we investigate) how it came in and then where it went. So it's a trail in and out that we look at," O'Donnell said.

Among the detectives tracking whether or not any laws were broken along that trail that involves millions of dollars in taxpayer backed money, is a pair of officers who are new to the financial crimes unit but they bring important expertise.

"We added two more detectives to that unit. They're accountants by trade," O'Donnell said.

While accounting skills are one key to digging through financial documents for potential evidence in this type of case, Colonel O'Donnell said the time frame for the investigation remains an unknown.

"It's an inconsistent science. You have to remember, there are multiple interviews and those interviews lead to other interviews," O'Donnell said. "Then you have computers and you have to mirror computers."

As it's been since the investigation began the first week of June, Rhode Island State Police are working with the Rhode Island Attorney General, the FBI and the Rhode Island U.S. Attorney's office on the 38 Studios investigation

Schilling: Company crash cost me baseball fortune

June 22, 2012

E-mail

PROVIDENCE, R.I.—Former Boston Red Sox pitcher Curt Schilling said Friday that the collapse of his 38 Studios video game company has probably cost him his entire baseball fortune, and he placed part of the blame on Rhode Island officials, including Gov. Lincoln Chafee.

Schilling said during a 90-minute interview on WEEI-FM in Boston that he put more than \$50 million of his own money in the company and that he's had to tell his family that "the money I saved during baseball was probably all gone."

Schilling said he hopes to return to work soon as an analyst for ESPN. He took a leave of absence from the network after 38 Studios filed for bankruptcy protection on June 7. The firm was lured to Providence from Massachusetts in 2010 after Rhode Island offered a \$75 million loan guarantee. The state is working to determine how much it's on the hook for after the company's collapse.

While he conceded that he "absolutely" was part of the reason the company failed, he said public comments made by Chafee last month questioning the firm's solvency were harmful as the firm tried -- but failed -- to raise private capital to stay afloat.

"I think he had an agenda," Schilling said about Chafee.

Chafee vocally opposed the state's loan guarantee to 38 Studios when he was running for governor in 2010. But after it was a done deal, he was the company's "biggest cheerleader," Chafee spokeswoman Christine Hunsinger said Friday.

"The success of 38 Studios would have meant success for Rhode Island through the contribution a company makes to the overall economy," she said in a statement. "There is no victory in the failure of 38 Studios. People have lost their jobs and Rhode Island taxpayers are now potentially responsible for the repayment of tens of millions of dollars."

Schilling also accused Chafee of failing to work with an investor who was willing to put \$15 million to \$20 million into the company to help it succeed. He said the investor walked away because of Chafee's inaction.

38 Studios laid off its entire workforce -- nearly 300 employees in Providence and more in Maryland -- last month. That move came after it was more than two weeks late on a \$1.1 million payment to the state; officials have said that was the first indication the company was in financial trouble.

The firm had sought millions of dollars in tax credits from Rhode Island as it struggled to stay afloat, but Schilling said Friday that he wasn't looking for a bailout.

State and federal authorities, meanwhile, are investigating 38 Studios' finances. Citizens Bank also has sued Schilling to recover \$2.4 million in loans it made to 38 Studios.

Schilling, who also pitched for Baltimore, Houston, Philadelphia and Arizona, won the World Series three times and is perhaps best remembered for pitching Game 6 of the 2004 American League Championship Series with an injured ankle that stained his sock with blood.

Schilling said he hasn't done anything wrong. He said he never took any money from the company, not even a salary. He said the company was close to succeeding but just couldn't raise enough private capital. He also said he never intended to hurt the firm's workers.

"It's been kind of a surreal 60 days or 65 days," Schilling said. "It's crushing and devastating to see it fail the way it did."

Schilling was asked how the company's collapse has affected him personally.

"I don't know. ... It's not over yet," he said. "I would imagine the next foreseeable time in our lives is going to be consumed by this. It's a life-changing thing."

But he added, "I'm not asking for sympathy. It was my choice." ■

June 23, 2012

Schilling tells his side on sports radio show

Says he made mistakes, but that the governor "had an agenda," on WEEI's Dennis & Callahan show

By KATE BRAMSON and MARIA ARMENTAL JOURNAL STAFF WRITERS

Curt Schilling took to the public airwaves Friday, for the first time since his video-game company 38 Studios filed for bankruptcy on June 7, and admitted he made mistakes.

He said he should have engaged the Providence community about his company's work and should not have agreed to hire so many employees as fast as he did under the controversial \$75-million loan guarantee from the State of Rhode Island that lured him to relocate his studio from Maynard, Mass. Furthermore, he said, he should have gotten a more concrete agreement from the state that it would be forgiving about his company's missing a May 1 payment, which resulted in his company falling into default on the loan agreement.

But Schilling continued to lay blame at the feet of Governor Chafee, reiterating statements he made to The Providence Journal over Memorial Day weekend that Chafee's May 14 comment about the state working to keep the company "solvent" damaged his ability to attract private investment.

As his venue for the interview, Schilling chose the Boston area sports radio program "The Dennis & Callahan Morning Show," on WEEI. The interview also aired on the New England Sports Network television station.

After the state issued \$75 million in bonds, 38 Studios got \$47.4 million. Much of the rest of the money was set aside for bond payments and in case the company missed future payments.

As Schilling and the Rhode Island Economic Development Corporation hammered out terms of the loan guarantee in the summer of 2010, Schilling said Friday that the state didn't have the "expertise on the staff" to get into the "business of software development." So instead, he said, they agreed to link the payments he would get from the state to "job creation."

"In hindsight, that was a big mistake, because we ended up putting together a staff ramp that had us ramping up far too fast," Schilling said. "And basically, the money they were investing in the company, we weren't allowed to use as we needed to use it to develop. We had to use it to create and pay jobs. We got too big too fast."

The company had nearly 400 employees when it laid them all off on May 24 — 291 in Providence and about 100 at its Maryland studio.

In the weeks since the company's financial troubles became apparent, Schilling has been quiet — agreeing only to the interview with The Providence Journal the weekend after those layoffs. He also kept a low profile here in Rhode Island, refusing repeated requests from The Providence Journal for interviews after moving his company to the state. The studio in downtown Providence, at One Empire Plaza, carried no name plate or sign. Schilling told radio hosts Gerry Callahan and John Dennis that when he talks about "the State of Rhode Island," he's talking about a few specific people, not the taxpayers.

"I think that was one colossal mistake that we made from the outset — was not engaging the Providence community," he said, such as having an "open house, bringing them in to let them see what it was that we were doing. ... We were incredibly silent, to the point where it caused problems."

Another mistake, Schilling said, was trusting the State of Rhode Island and expecting it would have the company's best interests in mind. The deal entitled Rhode Island to be first in line to collect the company's assets in case of failure.

Schilling said the company told state leaders a week in advance it would miss that May 1 payment.

"We made a mistake," Schilling said. "We didn't specifically ask them to give us an extension."

Of Governor Chafee, who opposed the deal as a candidate for governor in 2010, Schilling said: "I think he had an agenda and executed it."

The governor's spokeswoman, Christine Hunsinger, issued a statement Friday, saying Chafee has "repeatedly" said that even though he was opposed to the loan guarantee, he became the company's biggest cheerleader once he took office.

"That absolutely, unequivocally never happened," Schilling said on the radio.

The statement from the governor's office continued: "The success of 38 Studios would have meant success for Rhode Island through the contribution a company makes to the overall economy. There is no victory in the failure of 38 Studios. ... I'm glad Mr. Schilling is taking responsibility for his mistakes and errors in judgment, notwithstanding his claims that the state was not a good partner."

Schilling also provided more financial details on how he ran the company. He said he took care of his employees, provided "as good a health-care plan as any company in the world" and spent \$3.2 million to move about 160 families to the Providence area.

Bankruptcy documents showed that seven employees were in trouble financially because 38 Studios had contracted with a relocation firm to help them sell their homes but the homes hadn't sold. Schilling said it's up to the bankruptcy trustee "to make that right."

"My hope is that will be one of the senior priorities for anything to happen from a monetary perspective — that those employees will be made whole," Schilling said.

"One of the many mistakes that I made, or that we made as a leadership team, is that this came out of nowhere," he said, noting he had always told his employees that if "something happens," they would have a month's lead time. Instead, he said he missed payroll the day after Chafee used the word "solvent" in media interviews.

"The employees had no idea. Payday was the following day," Schilling said. "They didn't get a paycheck, and it sort of went downhill from there."

Schilling said as he watched the company he had built for 5 1/2 years disintegrate, he had to sit down with his teenage children and tell them that the money saved from his baseball days "was probably all gone," and that they should expect to hear things in school.

Questions Surround Speaker Fox's Relationship with 38 Studios Insider

Monday, June 25, 2012

Dan McGowan, GoLocalProv News Editor

Several weeks after initial inquiries from GoLocalProv, House Speaker Gordon Fox still isn't answering questions about a 2007 fundraiser held for him by the lawyer who would play a pivotal role in bringing Curt Schilling's 38 Studios to Rhode Island three years later.

In March 2007, Michael Corso, Steven Nappa and Robert Britto of Nappa Building Corp. and former State Representative Ray Rickman were listed as the hosts of a private fundraiser held in the Peerless Lofts for the then-Majority Leader. The event, which helped Fox rake in approximately \$10,000, was catered by Tazza, the downtown café owned by Corso.

But while Fox's campaign finance reports from the time include details about several other fundraising events held during the first quarter of 2007, there is no information listed about expenses incurred for the Corso-hosted event, which may constitute a campaign finance violation.

"Speaker Fox has been extremely busy entering the final two weeks of the session, but he will soon be checking the campaign records from five years ago," Fox spokesman Larry Berman told GoLocalProv on June 4. "If corrections are necessary to the report, he will make them."

As of Friday, Berman could not offer any additional comments and Fox had still not made any amendments to his campaign finance reports.

Other Expenses Listed

According to his first quarter campaign finance report from 2007, Fox spent \$8,480.96 on a March fundraiser at what was then known as the Hi Hat. Fox also spent \$1,466.85 on "Rep. lunches and dinners," that month, but did not list the location.

His report also lists a \$1,500 fundraising expense from March 15, 2007, but includes no details about what the expenditure was related to.

While Corso's restaurant appears nowhere in Fox's campaign report, two other politicians did report significant expenditures at Tazza in 2007. On October 1, then-General Treasurer Frank Caprio spent \$1,256 and on October 30, then-Providence Councilman Cliff Wood spent \$1,176.08 at the Westminster Street café.

Corso Becomes a Player

Over the next five years, Corso became the state's top tax credit broker, helping to flip millions of dollars in film tax credits into cash for production companies all over the country. Corso profited by taking a

small cut of each sale and has been listed as a producer or executive producer in at least 20 movies, according to IMDB.

During the same period, Fox ascended to the Speakership, becoming arguably the most powerful politician in the state. In March of 2010, Fox, former Economic Development Corporation (EDC) director Keith Stokes, Schilling and 38 Studios executive Tom Zaccagnino met in Corso's law office to discuss bringing the company to Rhode Island.

Two months later, the General Assembly passed legislation that expanded the EDC's Job Creation Guaranty Program from \$50 million to \$125 million. By July of that year, the EDC's board had signed off on a \$75 million loan guarantee for Schilling's company. Coincidentally, 38 Studios would later use Steven Nappa's construction company to help with the interior build out of its downtown headquarters.

But Corso is now caught up in controversy after he pledged over \$14 million in film tax credits that had not actually been issued as collateral for an \$8.5 million loan from BankRI to help Schilling's struggling video game company.

38 Studios had received initial certification from the state to receive film tax credits, but the company became ineligible for the funds when it defaulted on a \$1.125 million payment due to the EDC on May 1.

Company Goes Bust

Earlier this month, 38 Studios filed for bankruptcy a short time after laying off every single employee. The company owes creditors over \$150 million (including \$11 million to Corso) and has less than \$22 million in assets.

Last week, Schilling told WEEI that he poured over \$50 million of his own money into 38 Studios, but the company was unable to raise additional funds. Schilling also claims Governor Lincoln Chafee had an "agenda" and was not unhappy to see the company go under. Chafee has since disputed those comments.

June 26, 2012

Probe of 38 Studios voted

EDC board goes behind closed doors to authorize hiring outsiders

By KATE BRAMSON JOURNAL STAFF WRITER

PROVIDENCE — The Rhode Island Economic Development Corporation's board Monday voted to issue bonds to buy downtown land and dredge the Port of Davisville and granted authority to "hire professionals in relation to 38 Studios."

But the 38 Studios authorization took place in an hour-long executive session closed to the public, and Governor Chafee, who chairs the EDC board, and the agency's legal counsel released few details.

It's now up to William J. Parsons to hire those professionals, whose scope of work and pay were not revealed Monday night. Parsons, deputy director of the EDC, has been in charge of day-to-day operations since Executive Director Keith W. Stokes resigned last month in the midst of meetings the EDC held with Curt Schilling as his ailing video-game company, 38 Studios, struggled to avoid bankruptcy.

EDC legal counsel Thomas E. Carlotto said the board needs to take no further action when it comes to hiring those professionals because Parsons is now authorized to do so. Chafee and Carlotto declined to say what type of professionals would be hired and what work they would do.

Pressed for details, Chafee said, "We might have more tomorrow."

"We're working on it," the governor continued, after Carlotto said he thinks Parsons would hire "more than one."

"First we have the authorization," Chafee said. "Now we go to work."

After the closed executive session ended, the EDC board, with exactly the five directors it needed for a quorum, voted to:

Authorize the agency to issue up to \$42 million in revenue bonds so the agency's subsidiary, the Route 195 Redevelopment District Commission, can buy prime real estate in downtown Providence from the Rhode Island Department of Transportation. The land was made available by the relocation of Route 195.

Authorize the agency to issue \$7.5 million in bonds to raise money for the Quonset Development Corporation to dredge near the piers at the Port of Davisville.

Carlotto, a partner in the law firm Shechtman Halperin Savage LLP, said he and Chafee had no more comment about the 38 Studios-related hiring because the matter took place in executive session, a move that drew one audience member to press the board for its reason for going into a closed session.

"They play this game," said Richard Langseth, executive director of the Greenwich Bay Watershed Group, who said he has challenged the agency's use of closed sessions in the past and is upset the board won't publicly discuss 38 Studios.

Also in closed session, the EDC board agreed to defer a vote on whether to approve minutes drafted to reflect what happened in two closed sessions the EDC board held with Schilling last month.

The collapse of Schilling's video-game company, which filed for bankruptcy on June 7, is the reason the EDC board has lost members. The EDC's vote to grant Schilling's company a controversial \$75-million loan guarantee lured the company to Providence from Maynard, Mass.

The board, previously with 13 members including the governor, is down to 9 directors plus Chafee because of resignations in the wake of 38 Studios' financial collapse. But three of those nine have been serving on expired terms, and the governor wants each of them to depart as well.

None of those three attended the meeting. One, AFL-CIO President George Nee, has said he will not leave until a nominee is confirmed by the state Senate to replace him, but he had a family trip planned this week and knew ahead of time he could not attend Monday's meeting. The other two with expired terms — Dr. Timothy J. Babineau and Daniel Sullivan Jr. — also did not attend.

The five directors in attendance Monday, who voted unanimously on the Route 195 land and Quonset bonds, were: Providence developer Stanley Weiss; Providence entrepreneur Jack K. Templin; Jerauld C. Adams, owner of Hemphill Mill in Central Falls; Karl Wadensten, president of VIBCO and the one director on the previous board who cast a vote against the Schilling deal; and Cheryl Watkins Snead, president and CEO of Banneker Industries, who was absent the day in 2010 that the board voted on the 38 Studios deal.

Absent from Monday's meeting, but still on the EDC board, was David Dooley, president of the University of Rhode Island.

Chafee appointed Adams as the board's new vice chairman, to replace Helena B. Foulkes, who resigned last month.

He told the board that Carlotto is the board's new secretary; Wadensten agreed to be treasurer. The board unanimously approved those two positions.

June 27, 2012

Effort begins to protect taxpayers

EDC hires Providence law firm to look at ways to get back taxpayer money that may be lost in company collapse

PROVIDENCE — As Rhode Island investigates whether it can recoup any taxpayer investment in Curt Schilling's bankrupt video-game company, Governor Chafee announced Tuesday that the Economic Development Corporation has hired local law firm Wistow & Baryllick Inc., of Providence, to lead the charge.

Max Wistow, a partner in the firm who has taken the case, was one of the lead attorneys who helped reach a settlement for 300 Station fire victims who lost loved ones or suffered injuries in the February 2003 nightclub blaze. Wistow joined the governor at a Tuesday news conference to announce the decision the EDC board hammered out during a closed session Monday night.

Chafee said Wistow has agreed to work for the state on a contingency basis. The firm would get 16.66 percent of any money that is recovered. The contract with the firm — dated Monday and signed by William J. Parsons, EDC managing director — says the EDC will reimburse Wistow for out-of-pocket expenses.

Schilling relocated 38 Studios to Providence last year after the Massachusetts company received a controversial \$75-million loan guarantee from the EDC in the summer of 2010. But since the firm laid off several hundred employees last month and then filed for Chapter 7 bankruptcy, Rhode Island taxpayers could be on the hook to pay back as much as \$102 million for the bonds.

Wistow said his firm will review all documents that are "relative, related, pertinent to the bond issue" and what happened to the proceeds. He said his firm will interview people willing to talk. He wants to speak with former EDC board members who approved the loan deal, but Wistow acknowledged he has no recourse to force anyone to speak.

As Chafee ran for governor in 2010, he vehemently opposed the loan deal, even suggesting the state consider suing members of the EDC board for breach of fiduciary responsibilities if the loan deal went sour.

Only a handful of EDC directors who voted for the deal remain on the 12-member board, because Chafee appointed four new directors in 2011, three directors resigned in the midst of 38 Studios' financial collapse, and Chafee has encouraged others to step down.

Pressed Tuesday as to whether the state might sue directors who approved the deal, Chafee said it's too early to say.

"You're directing your attention in the wrong area," he said. "You're focusing on one small aspect of what we might want to recover here. I think that the plate is wide open on what we might be able to pursue."

Yet Wistow provided few details, saying the questions reminded him a bit of the beginnings of the Station fire litigation.

"Reporters, the press, the public were pressing counsel in that case for: Who are you going to go after? And what do you expect to accomplish?" he recalled. "And at the beginning of that case, our responses were very similar to what they are today, that this tragedy — and by the way, they were ... two tragedies, different kinds, but both tragedies — just happened, very recently. ... We need to look at everything, and hopefully at the end of the line, there'll be a good result, but we're in no position to guarantee that."

Jonathan N. Savage, the EDC's new legal counsel since Chafee dismissed the prior legal counsel during 38 Studios' collapse, acknowledged that it's possible the state will not be able to recoup any money.

However, after the news conference, Savage said, "While it's a possibility that there will be no recovery, we are optimistic that that won't be the case."

Chafee addressed Wistow's reference to the Station fire.

"I know that 38 Studios and the Station fire were put in the same sentence as a tragedy," Chafee said. "I know Mr. Wistow strongly believes that these tragedies have a great deal of difference. I'm sure we share that same sentiment."

"Yes, of course," Wistow replied.

Savage, whose firm Shechtman Halperin Savage LLP is representing the state in the 38 Studios bankruptcy case, said his team will share its strategy in a meeting Wednesday with the bankruptcy trustee.

Chafee rebutted claims made by Schilling in a Boston sports radio program last Friday that the governor did not have the company's best interests in mind — saying that nearly all of the payments of capital from the bond sale were transferred to 38 Studios after he took office.

Chafee said the first inkling he had of 38 Studios' financial troubles came during a meeting with company executives — "Friday, April the 13th, as it turned out."

The company made no specific requests of the state at that meeting, which House Speaker Gordon Fox also attended, Chafee said.

"But it was obvious when we got out onto the street," Chafee said. "We looked at each other and said, 'The company's in trouble.'"

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BREAKING NEWS

R.I. hires Providence law firm to try recouping money after 38 Studios bankruptcy

Comments 33 | Recommend 1

June 26, 2012 4:01 pm

By Kate Bramson

PROVIDENCE, R.I. -- Governor Chafee announced Tuesday that the state has retained the law firm Wistow & Barylick Inc. of Providence to investigate whether there is any money the state could recoup for taxpayers in connection with 38 Studios.

Lawyer Max Wistow, a partner with the firm, said the lawyers will investigate everything about what happened but said it's too soon to provide details on whether there's any money that could be recovered.

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Governor Chafee said Wistow has agreed to work for the state on a contingency basis. The firm would get 16.66 percent of any money that is recovered.

SI

This report was initially posted at 2:29 p.m.

More news on 38 Studios

Updated June 26, 2012, 3:55

WHAT COULD THE STATE RECOUP? Despite questions from reporters about how the state might recoup any money and from whom, both Wistow and Jonathan N. Savage, who works as legal counsel for the EDC, said it's too soon to provide more details.

Asked if it's possible the state might not be able to recover any money, Savage said it is.

However, he said after the press conference, "While it's a possibility that there will be no recovery, we are optimistic that that won't be the case."

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sick of property taxes 1 Score: 0

7:18 AM on 6/27/2012 [Report Abuse](#)

it was gordon fox who had an agenda. all of his lawyer and back room deal friends were going to make money at the expense of the ri taxpayer in a schilling deal. former governor carciери should be ashamed of himself. as a lame duck governor he should have never done this deal. he even said it was worth the risk. the important word is RISK.

massachusetts told schilling is a massa

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would have never heard of schilling's company if massachusetts did the deal.the ri governor carciери and speaker fox must think the massachusetts edc was stupid. the ma edc was not stupid and we are going to pay for it. fox made sure the edc money went from 50 million to 125 million. what a coincidence that the extra 75 million was put in for schilling. i only hope fox and his friend corso get nailed. the people in providence would be stupid if they vote fox back in.

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Report: Woman treated for alcohol poisoning party hosted by Chafee's underage son

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Providence City Council finance chairman ref removal, cites council regulations



IMDLAW

Score: 1

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7:06 AM on 6/27/2012

Company goes belly-up...
Obligations disappear...
New Company emerges...
Governor hires Law firm...
People go to jail...
New Company goes belly-up...
My work here is done.



platepro

Score: -1

Report Abuse

6:38 AM on 6/27/2012

More of our money being blown. Everyone knows what happened. Get the state police to get to the bottom of it. They wont have to go to far. They are all in state government.

1 reply



ex X19

Score: 0

Report Abuse

6:28 AM on 6/27/2012

Gordon Fox. Michael Corso. Don Carciери. Paiva Weed

you only need to investigate these scum bums.

four people. 100 Million.



rhodyfirst

Score: 3

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4:44 AM on 6/27/2012

Sorry, but the governor should have mandated that a non-RI firm be hired --- possibly a Boston, Hartford or NYC firm, staffed by former federal prosecutors who understand how to perform fiscal audits.

We all know how small RI is and how insular our state's legal community is, now don't we? Guaranteed that several members of the firm have a history with legislators who may be culpable, with EDC staffers who may be culpable, with EDC board members who may be culpable.

At a minimum, the governor should have made it clear --- no one in the law firm who has had a personal or professional relationship with members of the General Assembly, or EDC board members or staff, may be involved in any manner in investigating the 38 Studios debacle.

I'll bet half the lawyers in senior positions at this law firm have some connection to someone likely to be a target of investigation in this issue. Likely any RI law firm has the same exposure.

I'll never be satisfied that this investigation is 100% legit unless an out-of-state law firm, with former federal prosecutors involved, handles the investigation.

▶ 1 reply



NarragansettLagerBeer Score: 0
9:52 PM on 6/26/2012 [Report Abuse](#)

Curt Schilling's lawyers will make certain there's no money to recoup. Gov Chafee clearly had an agenda against Curt Schilling and 38 Studios!

▶ 3 replies



Original Friar Score: 1
7:21 PM on 6/26/2012 [Report Abuse](#)

Way to go Linc, what the State Police could not do the job and save the State of RI 16%?

Lost in space, Get a job Linc!

▶ 1 reply

The day after drinking party, Caleb Chafee ha earlier case expunged

Lobbyist charged in \$10-million fraud alleged run by her boyfriend at R.I. Navy research bas

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BREAKING NEWS

R.I. House Speaker Fox voices regret, defends his role in 38 Studios

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June 29, 2012 1:44 pm

By Mike Stanton

PROVIDENCE, R.I. -- House Speaker Gordon Fox says that he regrets the downfall of 38 Studios and worries, in retrospect, whether the state was too quick to approve \$75 million in taxpayer-backed bonds for the bankrupt video-game company founded by former Boston Red Sox star Curt Schilling.

But in his first extended interview on the topic, Fox defended his role in expanding a loan-guarantee program to accommodate 38 Studios, and told The Journal that his friendship with 38 Studios representative Michael Corso did not pose a conflict.

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Fox says that he hasn't spoken recently with Corso, the Providence lawyer and tax-credit broker. The FBI and the Rhode Island State Police are investigating \$8.5 million in loans that Corso obtained for 38 Studios early this year that were secured by anticipated film tax credits not yet issued by the state. Fox says that he has not heard from law enforcement.

SI

In a 90-minute State House interview Thursday, Fox defended his support of a business loan-guarantee program that was expanded by \$75 million and passed by the legislature in 2010. Later that year, the Rhode Island Economic Development Corporation approved \$75 million in taxpayer-backed bonds to lure 38 Studios from Massachusetts to Rhode Island.

Fox's support for expanding the program came after he met privately with Schilling and the EDC's then-executive director, Keith Stokes, at Corso's Providence law office. Fox says that a 38 Studios director he knew through Corso, Thomas Zaccagnino, requested the meeting, and that the speaker believed Corso was merely offering the use of his office "so that Curt Schilling walking into the State House or EDC wouldn't create pandemonium."

M

Fox says that Corso never lobbied him to pass the loan-guarantee legislation, nor did Corso tell him that he was a paid lawyer and consultant to 38 Studios -- though Fox now wishes Corso had.

M

As the new speaker, Fox says, he was under pressure to create jobs to jump-start Rhode Island's stagnant economy. Recalling the climate in 2010, he said: "We've got a 12 percent unemployment rate. We lost 32,000 jobs in the last couple of years. I'm a brand new Speaker. Everybody's screaming about

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cc



jobs. What are we going to do about this, short term? What are we going to do to use government?

"What type of program can you craft that's big enough to make a difference but small enough where, God forbid something happens, it doesn't kill us? And at the same time, we're hearing about the Knowledge District, the brain drain, all the colleges are telling us we're educating the best and the brightest and they have to go somewhere else to work. Maybe it was just a perfect storm of all this stuff coming together to say we've got to do something."

"It's not like I'm sitting there saying, wink, wink and a nod, here's 75 extra, give it to Curt Schilling. When you've got an EDC board with some powerful people on it who I don't think kowtow to winks and nods."

Looking back, Fox concedes that he might have done things differently.

"Should we have put limits on it (something that dissident legislators unsuccessfully proposed), would that have been a better approach?" he says. "Even now, in retrospect, with respect to the vetting of it, was it too fast? Maybe. I have not looked at one EDC document, but those EDC members have to be thinking, if they're human, maybe we didn't have the expertise to do venture capital.

"Those thoughts enter my mind every day. The thought that the taxpayers could be on the hook for \$75 million or more is devastating. Absolutely devastating. And then when you then look at the loss of a company, 300 jobs . . . There was an energy and a spirit there, gone, almost overnight. I'd be inhuman if I wasn't worrying about this stuff and beating the hell out of myself over it."



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IN THE PAPER

IN SATURDAY'S JOURNAL: Fox discusses some of the behind-the-scenes drama of 38 Studios' final days.

The day after drinking party, Caleb Chafee has earlier case expunged

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	Rob 3:55 PM on 6/29/2012 Fox is Foxy that is for sure.	Score: 1 Report Abuse
	watching the crooks 3:19 PM on 6/29/2012 Moron	Score: 2 Report Abuse
	Dave28 3:16 PM on 6/29/2012 If there wasn't a wink wink and a nod why wasn't it revealed to the GA and the public that increasing the loan guarantee by 75 million was for 38 Studios.	Score: 3 Report Abuse
	Saigo Takamori 3:12 PM on 6/29/2012	Score: 5 Report Abuse



This is an incredibly uninformed, inexperienced line of business thinking by Fox. Just goes to show how dumb the real governor of RI is. "What type of program can you craft that's big enough to make a difference but small enough where, God forbid something happens, it doesn't kill us?" How about 150 half million \$ investments in solid RI companies? How about helping Taco, Andera, Vibco and others to get bigger vs trying to tax them out of existence? What a jerk.



Silver Lake Score: 8
 3:03 PM on 6/29/2012 Report Abuse
 The \$75 million should have been used to help small businesses in the state.



AMAZED in RI Score: 6
 2:59 PM on 6/29/2012 Report Abuse
 FOX either stupid or criminal.....Or both !
 Yeah that's it a stupid criminal !!



Wake up Call Score: 6
 2:57 PM on 6/29/2012 Report Abuse
 Until the voting public throws these bums out of office, these backroom deals will keep happening!!! This deal was part of the "good ol boy club". The people who keep voting these clowns in office need to wake up!!!!!!!!!!!!!!!!!!!!!!



PFA Score: 6
 2:57 PM on 6/29/2012 Report Abuse
 If "The thought that the taxpayers could be on the hook for \$75 million or more is devastating" now, then it should have been devastating when you originally had the thought. From where do we find these completely incompetent and unqualified people to run our state government?



Island Score: 4
 2:55 PM on 6/29/2012 Report Abuse

This was a classic Rogue Island scam from day one.

Just follow the money trail.

Lots of these corrupt "guys" could go to jail.

But being Rogue Island, "nobody knows nothing" and they'll go quiet until the taxpayers don't press the issue any more.

Just look at the Sports Institute. Anything lately?

Of course not. Too many top "guys" involved in these deals.

And please get rid of the EDC and the inept hacks who supposedly work there. They're killing this state.

When does this corrupt madness end?

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BREAKING NEWS

R.I. House Speaker Fox voices regret, defends his role in 38 Studios

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June 29, 2012 1:44 pm

By Mike Stanton

PROVIDENCE, R.I. -- House Speaker Gordon Fox says that he regrets the downfall of 38 Studios and worries, in retrospect, whether the state was too quick to approve \$75 million in taxpayer-backed bonds for the bankrupt video-game company founded by former Boston Red Sox star Curt Schilling.

But in his first extended interview on the topic, Fox defended his role in expanding a loan-guarantee program to accommodate 38 Studios, and told The Journal that his friendship with 38 Studios representative Michael Corso did not pose a conflict.

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Fox says that he hasn't spoken recently with Corso, the Providence lawyer and tax-credit broker. The FBI and the Rhode Island State Police are investigating \$8.5 million in loans that Corso obtained for 38 Studios early this year that were secured by anticipated film tax credits not yet issued by the state. Fox says that he has not heard from law enforcement.

SI

In a 90-minute State House interview Thursday, Fox defended his support of a business loan-guarantee program that was expanded by \$75 million and passed by the legislature in 2010. Later that year, the Rhode Island Economic Development Corporation approved \$75 million in taxpayer-backed bonds to lure 38 Studios from Massachusetts to Rhode Island.

Fox's support for expanding the program came after he met privately with Schilling and the EDC's then-executive director, Keith Stokes, at Corso's Providence law office. Fox says that a 38 Studios director he knew through Corso, Thomas Zaccagnino, requested the meeting, and that the speaker believed Corso was merely offering the use of his office "so that Curt Schilling walking into the State House or EDC wouldn't create pandemonium."

M

Fox says that Corso never lobbied him to pass the loan-guarantee legislation, nor did Corso tell him that he was a paid lawyer and consultant to 38 Studios -- though Fox now wishes Corso had.

M

As the new speaker, Fox says, he was under pressure to create jobs to jump-start Rhode Island's stagnant economy. Recalling the climate in 2010, he said: "We've got a 12 percent unemployment rate. We lost 32,000 jobs in the last couple of years. I'm a brand new Speaker. Everybody's screaming about

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jobs. What are we going to do about this, short term? What are we going to do to use government?

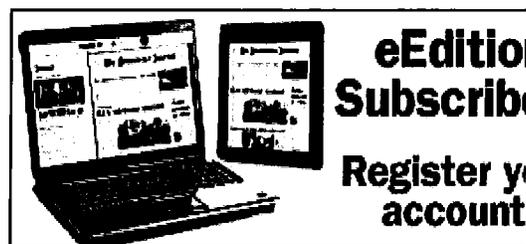
"What type of program can you craft that's big enough to make a difference but small enough where, God forbid something happens, it doesn't kill us? And at the same time, we're hearing about the Knowledge District, the brain drain, all the colleges are telling us we're educating the best and the brightest and they have to go somewhere else to work. Maybe it was just a perfect storm of all this stuff coming together to say we've got to do something."

"It's not like I'm sitting there saying, wink, wink and a nod, here's 75 extra, give it to Curt Schilling. When you've got an EDC board with some powerful people on it who I don't think kowtow to winks and nods."

Looking back, Fox concedes that he might have done things differently.

"Should we have put limits on it (something that dissident legislators unsuccessfully proposed), would that have been a better approach?" he says. "Even now, in retrospect, with respect to the vetting of it, was it too fast? Maybe. I have not looked at one EDC document, but those EDC members have to be thinking, if they're human, maybe we didn't have the expertise to do venture capital.

"Those thoughts enter my mind every day. The thought that the taxpayers could be on the hook for \$75 million or more is devastating. Absolutely devastating. And then when you then look at the loss of a company, 300 jobs . . . There was an energy and a spirit there, gone, almost overnight. I'd be inhuman if I wasn't worrying about this stuff and beating the hell out of myself over it."



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22 comments		Sort by: Newest to Oldest	
	<p>Rob Score: 1</p> <p>3:55 PM on 6/29/2012 Report Abuse</p> <p>Fox is Foxy that is for sure.</p>		
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	<p>Dave28 Score: 3</p> <p>3:16 PM on 6/29/2012 Report Abuse</p> <p>If there wasn't a wink wink and a nod why wasn't it revealed to the GA and the public that increasing the loan guarantee by 75 million was for 38 Studios.</p>		
	<p>Saigo Takamori Score: 5</p> <p>3:12 PM on 6/29/2012 Report Abuse</p>		



This is an incredibly uninformed, inexperienced line of business thinking by Fox. Just goes to show how dumb the real governor of RI is. "What type of program can you craft that's big enough to make a difference but small enough where, God forbid something happens, it doesn't kill us?" How about 150 half million \$ investments in solid RI companies? How about helping Taco, Andera, Vibco and others to get bigger vs trying to tax them out of existence? What a jerk.



Silver Lake Score: 8
 3:03 PM on 6/29/2012 Report Abuse
 The \$75 million should have been used to help small businesses in the state.



AMAZED in RI Score: 6
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 FOX either stupid or criminal.....Or both !
 Yeah that's it a stupid criminal !!



Wake up Call Score: 6
 2:57 PM on 6/29/2012 Report Abuse
 Until the voting public throws these bums out of office, these backroom deals will keep happening!!! This deal was part of the "good ol boy club". The people who keep voting these clowns in office need to wake up!!!!!!!!!!!!!!!!!!!!



PFA Score: 6
 2:57 PM on 6/29/2012 Report Abuse
 If "The thought that the taxpayers could be on the hook for \$75 million or more is devastating" now, then it should have been devastating when you originally had the thought. From where do we find these completely incompetent and unqualified people to run our state government?



Island Score: 4
 2:55 PM on 6/29/2012 Report Abuse

This was a classic Rogue Island scam from day one.

Just follow the money trail.

Lots of these corrupt "guys" could go to jail.

But being Rogue Island, "nobody knows nothing" and they'll go quiet until the taxpayers don't press the issue any more.

Just look at the Sports Institute. Anything lately?

Of course not. Too many top "guys" involved in these deals.

And please get rid of the EDC and the inept hacks who supposedly work there. They're killing this state.

When does this corrupt madness end?

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APNewsBreak: RI official sought 38 Studios job

By BY ERIKA NIEDOWSKI

Associated Press / July 6, 2012

PROVIDENCE, R.I. (AP) — A top official at the Rhode Island agency overseeing the program that provided Curt Schilling's video gaming company a \$75 million loan guarantee inquired about a job with the firm about six weeks after the financing deal was finalized, documents show.

Emails obtained by The Associated Press under a public records request show that J. Michael Saul, who was managing director of financial services for the state Economic Development Corp. at the time, asked the chief financial officer of 38 Studios, Rick Wester, about a finance director position in December 2010. Saul also inquired about working there as chief operating officer.

The financing deal between 38 Studios and the EDC was finalized on Nov. 2, according to the emails.

"On a separate note and very confidentially I am beginning to investigate my next opportunity," Saul wrote to Wester in a message sent from his EDC email account. "I do not know whether there might be a fit with 38 but I attach my resume as well."

Saul said Gov.-elect Lincoln Chafee, who was to take office weeks later, was requiring everyone in leadership positions at the EDC to reapply.

"That and the fact I never intended to stay this long has awakened me to a time for change," Saul wrote.

Saul also expressed interest in the position of chief operating officer at 38 Studios if it were to come open. It's unclear whether he ever worked for Schilling's company in any capacity, however.

Saul's job description, provided to The AP by the EDC, says he directed all of the agency's financial programs, including guaranteed loan programs and bond financings. Under its agreement with 38 Studios, the EDC issued \$75 million in bonds and set aside the proceeds of the sale for the video gaming company to tap when it met certain milestones.

Messages left for Saul on Friday were not immediately returned.

EDC issued a statement saying it "does not condone behavior where a staff member is seeking employment from a company that he/she has monitoring or oversight of programs where the company is directly benefiting." The agency is investigating.

38 Studios was lured from Massachusetts to Rhode Island in 2010 after the EDC board approved the \$75 million loan guarantee. The deal was criticized by many at the time for being too risky, but agency officials said it would bring hundreds of jobs and millions of dollars in tax revenue.

The company laid off all its staff in May and filed for bankruptcy last month.

Saul left the EDC a few months after Chafee took office. He had served intermittently as deputy director, interim executive director and later — after then-Gov. Don Carcieri in 2010 appointed Keith Stokes as the agency's head — managing director of finance.

Saul launched a consulting firm, Main Street Solution, in Providence in 2011.

In his inquiry about the 38 Studios positions to Wester on Dec. 16, 2010, Saul asked that Wester not mention his interest to anyone except Jennifer MacLean, the firm's chief executive officer. He said Wester could also alert "Curt if necessary," referring to Schilling.

Saul specifically asked Wester not to alert 38 Studios Board Director Thomas Zaccagnino "as I do not want this getting back to Michael Corso or any RI pols at this time."

Corso is a Providence-based tax credit broker who reportedly was involved in early efforts to bring 38 Studios to Providence.

In a reply email, Wester thanked Saul for the resume and said the finance director position had been filled. Wester said he would talk to MacLean "about you and keep it low key. I can understand seeing how political things got."

Wester said he thought the COO at the time, William Thomas, was leaving soon. Thomas was still with the company when it laid off all its staff in May.

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APNewsBreak: RI official sought 38 Studios job

BY ERIKA NIEDOWSKI - Associated Press (AP)

Friday, July 6, 2012

PROVIDENCE, R.I. (AP) — Documents show an official at the Rhode Island agency overseeing the program that provided Curt Schilling's video gaming company a \$75 million loan guarantee inquired about a job with the firm about six weeks after the deal was finalized.

Emails obtained by The Associated Press under a public records request show J. Michael Saul, formerly with the state Economic Development Corp., asked 38 Studios' chief financial officer about a finance director position in December 2010. It's unclear if Saul ever worked there.

Saul was EDC's managing director of financial services at the time and oversaw EDC's loan guarantee programs.

The EDC said in a statement it doesn't condone staff members seeking employment from companies the employee is monitoring, and that it is investigating.

Messages left for Saul weren't immediately returned.



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RIEDC Board Authorizes First Use of New Jobs Creation Program

JULY 27, 2010 | [PRINT THIS PAGE](#) | [SHARE THIS](#) |

RIEDC Board approves measure paving way for video game developer 38 Studios to move to R.I. and bring 450 highly skilled, high-wage jobs to the state

In the first use of a new \$125-million program to create jobs in the Ocean State, the Rhode Island Economic Development Corporation (RIEDC) Board of Directors today approved a Final Authorizing Resolution to provide video game developer 38 Studios a loan guarantee to help the company expand its business and relocate to Rhode Island.

The \$75 million guarantee will assist the Maynard, Mass.-based company in obtaining private financing to bring 450 highly skilled, high-wage jobs to the state. The remaining \$50 million will be available for other innovation-driven small businesses to help them gain access to private growth capital and credit.

"I commend the RIEDC Board for its extensive due diligence and for taking this significant step to bring jobs to Rhode Island. This investment in our economic development has the potential to spark the expansion of a new industry in our state and generate additional new business growth. I welcome 38 Studios and am confident Rhode Island will provide the environment and workforce to make the company a leader in the interactive entertainment and video game industry," said Governor Donald L. Carcieri. "Other companies in growth industries, like software design and engineering, advanced manufacturing, life sciences and defense, among others, should see this as a clear sign that Rhode Island is here to support their business and invest in their future success."

Key provisions of the agreement include the following:

- 38 Studios is required to relocate to Rhode Island.
- 38 Studios will not receive the entire loan amount at once. The company will receive the funds on a staggered basis as it meets certain relocation, job creation and product development goals.
- Closing of the loan requires a signed enforceable lease for the company's corporate offices and studio operations in a location in Rhode Island that is satisfactory to both the RIEDC and 38 Studios.
- 38 Studios will offer its assets as collateral to the state. These assets include, intellectual property, licenses, licensing fees, distribution and publishing contracts, receivables, equipment, hardware, software and work product.
- The company will pay annual fees to the state based on a percentage of the outstanding loan.
- 38 Studios is subject to a job shortfall penalty fee of \$7,500 per year for each of the 450 jobs it has agreed to bring to Rhode Island.
- The RIEDC must approve the private lender that will be making the loan to 38 Studios.
- The loan cannot be transferred without RIEDC consent.
- Should 38 Studios relocate the company or any substantial portion of its operations outside of Rhode Island, it would constitute as a default on the loan in which case the company's debt and related job shortfall penalty

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fees would become immediately payable, including any outstanding costs and expenses incurred by the RIEDC.

•A third party monitoring, reporting and response process regarding the company's progress will be developed and implemented. 38 Studios will provide annual certifications that the company has met certain requirements of the agreement. The RIEDC may at the cost and expense of the company have such certification audited by independent public accountants.

"We'd like to thank Governor Carcieri, Speaker Fox, President Paiva-Weed, Chairman Costantino, Chairman DaPonte and all the members of the General Assembly, the EDC Board, and EDC staff, especially Executive Director Stokes and Deputy Director Saul, for their support and confidence in our company's growth. Today is a major step in moving us toward our goal of relocating our headquarters to Rhode Island. In doing so, we will support an interactive entertainment industry cluster that will bring thousands of high-paying, permanent jobs to Rhode Island. 38 Studios already has a number of Rhode Islanders and graduates from many of the local educational institutions on our team, and we look forward to recruiting more talented Ocean State residents to build the kind of careers that will be integral to our continued growth and provide the needed opportunities to keep local talent in state," said Jennifer MacLean, President and CEO, 38 Studios.

"38 Studios will hopefully be the first of many creative companies relocating to Rhode Island as a result of the loan guarantee program that the General Assembly proudly enacted in cooperation with the Governor and the EDC," said House Speaker Gordon D. Fox. "The plan approved today fits perfectly with the Assembly's emphasis on attracting knowledge-based technology companies that offer high-paying jobs that are so sorely needed."

President of the Senate M. Teresa Paiva Weed said, "One of the ways in which the Senate has been working to make it easy to do business in Rhode Island is by ensuring that businesses have access to the capital they need to create jobs in a tight credit market. The legislation that made today's action by the EDC possible is already having its intended effect, allowing a company to create hundreds of jobs. This is great news for Rhode Island."

Legislation enacted in June established the Job Creation Guaranty Program. The program authorizes the state to support critical economic development projects by backing private loans for innovative companies with primarily "soft" assets - like patents, intellectual properties and licenses - to help them expand and create a significant number of permanent, high paying jobs in Rhode Island.

"Our new Board was asked to provide leadership in helping Rhode Island build a healthier and more sustainable economy, in part by attracting new businesses to Rhode Island as well as supporting the growth of existing businesses. The Job Creation Guaranty Program gave us an important tool to encourage growing and innovative companies like 38 Studios to create jobs in our state. These are precisely the kinds of businesses we need to attract," said Al Verrecchia, RIEDC Board member and Chairman of the Board of Hasbro. "No question, there are risks associated with this opportunity, as there are with any other business transaction, but the Board has negotiated substantive provisions that protect Rhode Island's interests and encourage the growth of 38 Studios."

"38 Studios is the first of likely many companies that will use the Job Creation Guaranty Program. The RIEDC is moving the economic needle forward, and we are ready to work with other innovation-driven businesses to bring highly skilled, high-wage jobs to Rhode Island," said RIEDC Executive Director Keith Stokes. "This program was designed to create Rhode Island jobs, generate entrepreneurial activity, accelerate growth in existing small businesses and help attract new businesses to Rhode Island. The Board's approval of 38 Studios accomplishes all of these objectives."

The Job Creation Guaranty Program is comparable and a compliment to the Rhode Island Industrial Recreational Building Authority (IRBA) program established in 1958 to supply lenders with credit enhancements for long-term financing for companies with "hard" assets like buildings and machinery.

Protect Interests
(Providence Business News)

Rhode Island Looks to Lure Digital Media Companies with 38 Studios Deal

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Despite Loss of Schilling's Firm, Mass. Was Right to Hesitate
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38 Studios Headed to Rhode Island
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Curt Schilling's 38 Studios Moving to Rhode Island
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Curt Schilling's Video-game Company Gets \$75-Million Loan to Come to R.I.
(Providence Journal)

Schilling's 38 Studios Leaving Massachusetts for Rhode Island (Joystiq)

38 Studios R.I. Move Confirmed
(Xconomy\Boston)

Schilling Says 'Yes' to R.I.'s Proposal, Plans to Move (Mass High Tech)

Schilling Will Move his Game Co. to Rhode Island (Boston.com)

EDC Approves Loan Package for Schilling's 38 Studios; Now He Must Bring Jobs
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Schilling Bolts Massachusetts for Rhode Island (Game Politics.com)

Schilling's 38 Studios Headed for R.I.
(Boston.com)

RI Agency Meets on Plan to Lure Schilling Company (Artesia News)

The addition of 38 Studios to Rhode Island’s growing knowledge economy is a critical step in further developing the state’s digital media sector.

Board Approves Deal for Schilling’s Co. (WPRI)

Companies like 38 Studios will help establish the state as a center of a multi-billion dollar video game industry. Building on the creative and technical talent available at Rhode Island colleges and universities, 38 Studios will be the catalyst for hundreds of additional industry-related jobs in the state. A vibrant digital media sector will keep more Rhode Island graduates in the state and boost overall average incomes.

Schilling Will Move his Game Co. to Rhode Island (Boston.com)

38 Studios also has natural alignments with major local companies already involved with digital media. Pawtucket-based toy maker Hasbro recently entered into a joint venture to create a multimedia family entertainment platform. Providence-based GTECH is a leading global gaming technology and services company.

“I am excited that 38 Studios’ presence in Rhode Island will create a new business sector opportunity for the state,” said Dan Baudouin, Executive Director of The Providence Foundation. “38 Studios will help Rhode Island create a cluster of knowledge and competencies to compete globally in the growing digital media market and to create more high-wage jobs.”

 RIEDC Public Board Session 7 26 10 final - 38 Studios.pdf	235 KB
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 RIEDC BOD PRESENTATION FINAL - 6-14-2010.pdf	438 KB
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RIEDC

Rhode Island
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Building the 21st Century Innovation Economy

RIEDC Board Meeting

July 26, 2010

**Video Game Industry &
38 Studios Opportunity**

R.I. EDC finance employee refused support for 38 Studios loan

Comments 3 | Recommend 2

July 24, 2012 6:54 pm

By Paul Grimaldi

PROVIDENCE, R.I. -- Internal Rhode Island Economic Development Corporation documents released to The Providence Journal moments ago give no indication that agency executives heeded an employee's warnings about loaning money to videogame company 38 Studios.

More than a week before the EDC's board initially approved a \$75-million loan in June 2010 to the company, senior portfolio manager Sean Esten outlined his concerns in an e-mail to J. Michael Saul, the agency's deputy director.

"The 'worst case scenario' as presented by the company involves a new, commercially successful [videogame] title every two years. Is this realistic?"

Saul suggested Esten detail his concerns, but the documents don't indicate he heeded them.

[More news on 38 Studios](#)

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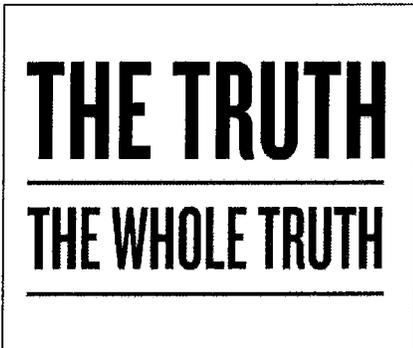
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	<p>BOSCO 9:16 PM on 7/24/2012</p> <p>Saul suggested Esten detail his concerns, but the documents don't indicate he heeded them. Why not Mr Esten??</p> <p>If this is the best you can come up with to cover your as\$ now....it falls mighty short.</p>	<p>Score: 6</p> <p>Report Abuse</p>



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BREAKING NEWS

R.I. EDC executives, board ignored warnings on 38 Studios

Comments 43 | Recommend 3

July 24, 2012 6:12 pm

By Paul Grimaldi

PROVIDENCE, R.I. -- Internal documents from the R.I. Economic Development Corporation Journal indicate the agency's executives and its governing board ignored warnings about the agency's investment in videogame company 38 Studios.

Sean Esten, an EDC senior portfolio manager, detailed his concerns in an May 2010 email to the agency's deputy director.

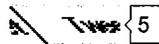
"To be honest, I have more information on the typical \$10K micro loan than I do on a \$100K loan," Esten wrote in a May 28 email. "This is a problem."

The EDC board approved a \$75-million loan to the company founded by ex-ballplayer Kevin Youkilis. The company shut down June 7 and is being liquidated.

[More news on 38 Studios](#)

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30 comments



RIopine

7:39 AM on 7/25/2012

Here's the deal, folks:

Don't come to my household looking for additional taxes on my home and car to support your ignorance.



Bill Carson

7:34 AM on 7/25/2012

What about the Rhode Island Economic Development Corporation (RIEDC) awarding a grant in the amount \$140,000 to be the nine-City consortium known as the East Bay Collaborative aka East Bay Energy Collaborative. The EBEC is not a gove

The EBEC wants to issue 60 million dollars in bonds just like 38 Studios to build an industrial wind turbine farm in Rhode happened at the Portsmouth High School 3 million dollar wind turbine that needs a million dollars in repairs three years aft

sos.ri.gov/documents/publicinfo/omdocs/minutes/5642/2009/15635.pdf



Skarekrow

7:03 AM on 7/25/2012

IT'S NOT THE POSITION. IT'S THE POLITICALLY CONNECTED FOOLS THAT GET THESE JOBS. DUH!



Skarekrow

7:00 AM on 7/25/2012

INSTEAD OF PUTTING NEPHEWS AND COUSINS ON THESE BOARDS, WHY DON'T WE PASS LEGISLATION TH HAVE TO KNOW WHAT YOU ARE DOING TO SERVE ON THESE TYPES OF BOARDS.



Legality

6:34 AM on 7/25/2012

If the EDC is truly a quasi public agency with an independent board, well there is precedent in the USA for a lawsuit again could lead to a recovery of half the amount lost. The AG needs to do this and, by the way, there is insurance which is not r



EE53

6:22 AM on 7/25/2012

The EDC needs to be eliminated - it's a useless joke.



EE53

6:21 AM on 7/25/2012

Of COURSE they did. This is Rhode Island.



HadEnoughYet

5:01 AM on 7/25/2012

Business as usual in the saddest excuse for a state. No one will be punished yet millions will be lost. RI, your a joke, go av

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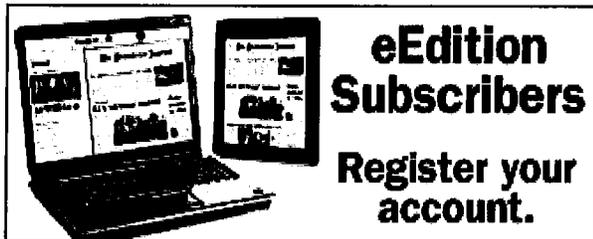
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Curt Schilling sued for \$2.4 million by bank

Citizens says game company won't pay loan

Citizens Bank has sued Curt Schilling to recover \$2.4 million in loans it made to the retired Red Sox star's bankrupt video game company.

Providence-based RBS Citizens is among the first creditors seeking to hold Schilling personally responsible for debts incurred by 38 Studios LLC, which filed for Chapter 7 bankruptcy protection last week, the first step in liquidating the company. Most creditors like RBS Citizens have little hope of recovering their money from 38 Studios; it reported owing more than \$150 million but has less than \$22 million in assets.

RBS Citizens, owned by the Royal Bank of Scotland, said Schilling personally guaranteed the debt to the bank on October 26. But, RBS Citizens said, "Schilling has failed and refused" to pay it. "This is a straightforward matter of liability," RBS Citizens said in the lawsuit, filed last week.

Schilling, who founded 38 Studios six years ago and lives in Medfield, could not be reached for comment. A lawyer for RBS Citizens declined to comment.

The bulk of the debt owed to RBS Citizens is a \$2.06 million line of credit established by 38 Studios in October 2010. In addition, 38 Studios had a business credit card account with a \$375,596 balance as of June 7, according to court documents.

The suit was filed in Suffolk Superior Court in Boston on June 7, hours after 38 Studios filed its bankruptcy case. When companies seek bankruptcy protection, they typically receive immediate relief from legal action by creditors, who must pursue their claims through the bankruptcy process.

In this case, RBS Citizens sued Schilling, not the company. RBS Citizens also sued Morgan Stanley Smith Barney, where RBS Citizens believes Schilling has financial accounts.

The former Red Sox pitcher could be on the hook for other loans, too.

Court documents indicate Schilling also personally guaranteed a \$1.5 million line of credit from Middlesex Savings Bank of Natick. He also used his personal gold coin collection to help obtain a loan from Bank Rhode Island, a unit of Brookline Bancorp. in Brookline, for an unspecified amount, according to records.

In all, Schilling told the Providence Journal last month, he guaranteed \$12 million in loans for the company, in addition to investing \$38 million directly.

Meanwhile, state and federal agencies stepped up their investigation this week into whether any laws were broken. Both the Rhode Island Economic Development Corporation and Bank Rhode Island received subpoenas.

The economic development agency handled the \$75 million state-backed loan that helped lure the company from Massachusetts to Rhode Island. Bank Rhode Island made loans to two companies controlled by Michael Corso, a Providence tax credit broker who used state tax credits he agreed to buy from 38 Studios as collateral. 38 Studios applied for but never received the credits.

Secret Documents Reveal True Risks of 38 Studios

A confidential investment memo obtained by GoLocalProv reveals in painstaking and dramatic detail the true risks of the 38 Studios venture back in 2009—in marked contrast with the highly optimistic picture that consultants and staff presented to board members of the state Economic Development Corporation one year later.

The document, technically known as a Private Placement Memo, was issued on May 1, 2009 by 38 Studios in a bid to secure \$25 million in investment funds. The memo pulls no punches in describing the investment opportunity as “highly speculative and inherently risky.” It warns that membership interests in the company should be purchased only by those “who can afford to lose their entire investment.”

The longest section of the 37-page memo is devoted to spelling out 16 categories of risk—the unique unpredictability of the video game market, the challenges of launching in overseas markets, and the inherent risk in investing in a brand new company where the success of the venture rested on a few key individuals, to name a few.

“There is no guarantee of the economic success of any video game since the revenue derived from the production and distribution of a video game depends primarily upon the video game’s acceptance, which cannot be predicted,” the memo concludes.

The memo is not mentioned in any of the meeting minutes or listed in any of the public documents the EDC has released regarding the deal with 38 Studios, the video game company founded by Red Sox star pitcher Curt Schilling.

“The worst part of this deal is that all of the risk—all of the risk—went to the taxpayer. If this document had come out at the time the deal ... was being made there would have been an uproar,” said Ed Mazze, business professor at the University of Rhode Island.

In contrast to that memo, the three public slideshows presented to the EDC board of directors in the summer of 2010 devote a total of just two slides out of 38 total to discussing the risks, which had been whittled down to four brief bullet points.

And, in the space of two meetings prior to the vote approving the \$75 million loan guarantee, the negative risks involved were discussed just twice.

Instead, the presentations from three consultants and EDC staff dwelled on the lucrative opportunities in a \$72 billion global industry, which they predicted would nearly double by 2013. One after another slides flashed charts and other graphs showing the rapid growth in video game use among youth, U.S. subscriptions to massively multiplayer online games, and software sales as compared with hardware. One slideshow was devoted entirely to the hypothetical scenario of creating a cluster of video game companies in Rhode Island, with 38 Studios as an anchor.

In comparing the investment memo with the public presentations at the EDC meetings, it is clear that EDC board members—at least publicly—not only were not briefed on the full extent of the risks involved, but also that there were a number of additional risks that were not disclosed during the public board meetings.

“To me if you had a 30-slide show, perhaps 10 of them should have been on risk,” said state Sen. Ed O’Neill, an independent from Lincoln and a retired executive with Texas Instruments.

During his 35-year tenure with the company, O’Neill recalled his involvement in a number of complicated acquisitions, which he said required extensive due diligence. “We didn’t just peel the surface on those. We peeled 20 layers down to the core,” he said.

The confidential memo raised three questions for businessman Ken Block, the founder of the Moderate Party and a critic of the deal: Did the EDC staff even ask for the such documents from 38 Studios? Did 38 Studios provide them? And, if so, were those documents ever shared with EDC board members?

“The document you have contains a number of ‘boilerplate’ statements of risk that are standard for any such offering, the question is whether the EDC sought or prepared a comparable analysis of its proposed investment,” said state Rep. Laurence Ehrhardt, R-North Kingstown.

Such questions went unanswered by two spokeswomen for the EDC yesterday.

“I certainly don’t see anything referred to that in the minutes,” said Ehrhardt, who was a treasurer for a Fortune 500 company before his retirement. Consultant reports on the video game industry, he added, are “not the same thing as a detailed investigation of the company itself.”

In the summer of 2010, the membership of the EDC board, with few exceptions was comprised of heavy-hitting local business leaders—a hospital CEO, a Verizon regional president, the chairman of a top toy-maker and a senior executive at a construction company.

The risks listed in the confidential memo are common to the business and investment world, Mazze and Ehrhardt said. As experienced business people, EDC board members would have understood the general risks involved in the 38 Studios venture, Mazze said, but they “would not have understood how serious some of these risks are.”

The fact that such risks were minimized during the consultant presentations, Mazze added, made it that much easier for board members to ignore them. “I think they were a load of nonsense,” Mazze said, referring to the presentations, which were delivered by Wells Fargo, Strategy Analytics, and EDC staff. Mazze credited the prodding and “moral suasion” of the Governor and then-EDC Executive Director Keith Stokes with getting the board to approve the loan guarantee.

The type of investment the memo was seeking was riskier than the “secured debt” involved in the EDC deal, Ehrhardt added.

"However, if the collateral for the debt was the work product (the game being developed) all the warnings of risk would certainly apply to the potential value of the collateral (particularly in the event of failure) and argue strongly against assigning much value to the collateral thus rendering the statements of various people that the loan was safe because 'it was secured' absolutely unsupportable and meaningless," he said.

The real issue, Mazze said, is the ability of board members to understand the risks involved and interpret the information presented to them. Having a member with banking experience would have been useful. A board member with investment experience—someone like state Treasurer Gina Raimondo, also would have been an asset to the board, O'Neill said.

O'Neill also questioned the qualification of the EDC staff, such as Stokes, who has a background in tourism, O'Neill noted. "Does he have the wherewithal to make an assessment on an investment like that? Probably not," O'Neill said. "You need to have highly skilled, highly qualified people making these decisions."

Efforts were made to reach every single member serving on the board in summer 2010. A handful were unavailable because they were traveling, but most simply did not respond to calls or e-mails requesting comments. Former board member Lynn Singleton, the head of PPAC, declined to comment and former board member Shivan Subramaniam, the CEO of FM Global, responded to a series of specific questions with this statement:

"Based on the information provided at the time, I voted along with the majority of the RIEDC board of directors in favor of the state supporting the project. Long term, the future of the Rhode Island economy must be built, in part, on developing a cluster of knowledge-based businesses and creating a qualified and well compensated local workforce that such enterprises demand."

Messages left at the 38 Studios offices in Providence and Baltimore also were not returned.

Now, a week after 38 Studios declared bankruptcy, unanswered questions continue to pile up.

In 2010, EDC board members were assured that a third party would be monitoring 38 Studios and its progress. Two years later, O'Neill wonders why the bankruptcy came as such a surprise. "They should have known when the train was wobbling on the tracks," O'Neill said. "They didn't know until it was in the ditch."

"The whole process on this from beginning to end smells," Mazze said.



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Target 12: EDC ignored 38 Studios signs

Unsealed documents show hasty review, cut corners

Updated: Wednesday, 21 Nov 2012, 12:15 AM EST
 Published : Tuesday, 20 Nov 2012, 9:45 PM EST

By Ted Nesi, WPRI.com Reporter
 By Tim White, Target 12 Investigator

PROVIDENCE, R.I. (WPRI) -- Rhode Island officials say they did extensive due diligence before awarding a \$75 million taxpayer-guaranteed loan to Curt Schilling's doomed video game company, but documents obtained by Target 12 suggest the process was rushed and shortcuts were taken.

Officials began drafting the terms of the 38 Studios deal as early as March 26, 2010, more than two months before state lawmakers even created the new \$125 million loan-guarantee program that was used to lure Schilling's company to Rhode Island in July, according to more than 2,500 pages of emails, financial documents and internal memos the R.I. Economic Development Corporation provided in response to Target 12's public records request.

House Speaker Gordon Fox and other lawmakers now say they didn't know 38 Studios would get \$75 million from the loan-guarantee program when they approved it in early June. But an April 10 email from J. Michael Saul, then-deputy director of the EDC, shows the agency was already planning to provide \$75 million to the company at that point

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The emails show Saul played a hands-on role throughout the process, encouraging his staff to move quickly to get the deal done. Saul tried to get a job at 38 Studios just six weeks after the \$75 million transaction closed, though it appears he was never hired.

- [PDF: Read Chafee's letter to Carcieri](#)
- [PDF: Read Carcieri's reply to Chafee](#)

Saul and other key players were unavailable to comment for this story because of pending litigation.

Agency hired cheaper firm

Saul tasked Timothy Cole, who was the EDC's senior strategy and research manager until two months ago, with finding an independent firm to assess the prospects for 38

Studios and the video game industry. In an April 9 email, Cole acknowledged the firm the EDC wound up using - Strategy Analytics of Boston - wasn't as strong a choice as an alternative, Monitor Group of Cambridge.

Monitor Group is "clearly the best fit from an analytical and prestige standpoint, but their price range is prohibitive," Cole told Saul.

"Perhaps some negotiating could bring the price down, but I do not [know] what 38 studios' priorities are," he wrote. "If our [loan guarantee] offer is worth it, they may be willing to pay in the six figures, since Monitor would likely provide the most compelling analysis."

In another email, Saul said he "felt we should stay away from any statements about financial projections" when briefing the EDC board.

Memo: 'I did not check the math'

Angus Davis, a veteran tech entrepreneur who is now the CEO of Providence-based Swipely, was a vocal opponent of the wisdom of the 38 Studios deal in 2010. He told Target 12 the new revelations validated the concerns he had at the time.

"I have had that sense from the outside, and now seeing the emails from the inside it reinforces that view: that this deal was being pushed," Davis said. "It seems to be politically motivated, or at least was being pushed by folks largely on the political side."

"Can you imagine if you were talking over with your spouse about getting a new mortgage or buying a new car and not talking about what the monthly payment would be?" he added. "I mean, of course the financial projections are an important part of that consideration."

Documents show there was a tension between the need for speed and the need for scrutiny. A July 23 memo to the House of Representatives' fiscal advisor marked confidential reported that 38 Studios' internal projections forecast the company would book \$1.15 billion in gross revenue and \$570 million in net revenue from 2010 through 2015.

"I did not check the math...but these appear accurate," the House Fiscal memo said.

'We do not have any analysis'

In an email to Strategy Analytics on May 28, Cole wrote that agency employees "are still in the stage in the deal where we want to overturn every stone that could trip up in the short and long runs. We shouldn't [sic] progress until we have weighted all of the major risks."

"With that said," Cole continued, "circumstances dictate that we do so in an aggressive timeframe, as you already know."

In an email on June 12, the day after Carcieri signed the loan-guarantee program into law, Cole expressed some reservations.

"As I sit watching tv and tweaking a graphic on the public revenue upside of the 38 project, I began wondering what a similar graphic might look like on the downside, assuming various failures for 38 studios," he wrote to Saul and Robert Stolzman, the EDC's legal counsel at the time.

"[I]t occurred to me that we do not have any analysis of the likelihood that an unsuccessful 38 Studios would be acquired versus going bankrupt (worst case)," Cole wrote. "How often do 450 person studios go Babkrupt [sic] in this industry? My assumption is that it is a fairly low percentage, given the 'all in' perspective that [Strategy Analytics] expressed in their report. ... Do you two see this as an important bit of information for the board, if we can find valid data?"

Saul appeared to brush aside Cole's concerns. "Always good to know your downside, but frankly, there are too many scenarios to speculate on to make this meaningful analysis," he replied.

'I am still not comfortable'

Concerns were also raised by Sean Esten, the EDC's financial portfolio manager, in a May 28 email to Saul and Cole complaining that he'd received almost no financial data from 38 Studios. "To be honest, I have more information on the typical \$10k micro loan than I have on a \$75 million request," Esten wrote. "This is a problem. ... I am still not comfortable the opportunity is as strong as they'd like us to believe."

Esten argued 38 Studios was unlikely to be able to self-publish its major game, Project Copernicus, "as they have never done this in the past. ... The company's back up plan if we cannot do the deal is to raise \$25 [million] equity and then get a publishing deal. A suggestion: we guarantee the \$25MM in a bond and they get a publishing deal with EA, Sony or anothe player in the market to publish and fund some of the development and publishing expense."

Saul acknowledged Esten's concerns, asking him to draft a list of what he needed. On May 31, Esten suggested the EDC consider creating a package of incentives to attract a variety of video game companies "and not rely on a single company build the cluster around."

Since the company filed for bankruptcy in June, 38 Studios executives have said part of the problem was that the state withheld a portion of the \$75 million in loan money as a reserve in case they went belly up, leaving them with an unfinished game and starved for cash.

It appears state officials were aware of that concern even before the EDC granted the loan guarantee. In a June 17 email describing a revised term sheet, EDC lawyer Stolzman told agency officials and their advisers: "I make one observation th mitigates their complaining about the \$75M not being net. All along they represented that they needed \$75M to complete the MMO," a reference to the Copernicus game.

Ted Nesi (tnesi@wpri.com) covers politics and the economy for WPRI.com and writes the Nesi's Notes blog. Follow him on Twitter: @tednesi

Tim White (twhite@wpri.com) is the Target 12 investigative reporter for WPRI 12 and Fox Providence. Follow him on Twitter: @white_tim

In-Depth: 38 Studios Deal



Auction ends at 38 Studios

Hundreds of items were auctioned Tuesday at the former ...



38 Studios' assets hit auction block

The building at One Empire Plaza, which has been quiet since 38...



Photos: 38 Studios items up for auction

 Curt Schilling's failed video company is selling off all of its...

Auction clearing out failed game co.



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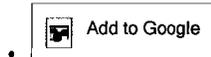
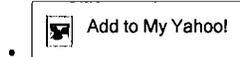
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GaryCB 33p · 14 minutes ago

I'm shocked, shocked at the accusation that our government is filled with political opportunists where taxpayer's money is thrown around like confetti.

I'm sure the 12 grade math required to see if this was a high risk venture was properly done by our due diligence minded government officials.

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Mollis' former attorney ordered by R.I. Superior Court judge to pay \$18,000 fine

Published: January 22, 2015 11:20 PM



Providence Journal Files / Connie Grosch

Mark Welch, left, the attorney to former Secretary of State A. Ralph Mollis, right, pictured in 2011.

By Jennifer Bogdan Journal State House Bureau jbogdan@providencejournal.com

PROVIDENCE, R.I. — Mark Welch, the attorney to former secretary of state A. Ralph Mollis, has been ordered to pay \$18,000 from his personal finances for abusing the Superior Court in a lobbying proceeding tied to 38 Studios.

Last month, Judge Daniel A. Procaccini sanctioned Welch for filing a petition that was “improper and legally deficient.” The petition sought to depose several parties for an administrative hearing on lobbying concerning attorney Michael Corso, a key figure in the 38 Studios financial debacle.

On Thursday, Procaccini clarified that the fine, which represents a portion of Corso’s attorneys’ fees, should be paid by Welch personally. The state is not responsible for the fine, Procaccini said in his decision.

Welch at first called the depositions necessary to authenticate documents in the lobbying hearing, but soon dismissed the action. The questioned documents were admitted into evidence anyway.

“This sanction is imposed upon Attorney Welch personally, must be paid from his personal funds, and under no circumstances shall this sanction be paid from funds attributable to the State of Rhode Island,” Procaccini wrote.

“This sanction’s primary purpose is to deter future ethical lapses of judgment and to serve as a reminder that an attorney’s ultimate obligation is to respect and obey the professional and ethical rules of our profession. The deterrent effect of this sanction will be completely thwarted if the sanction is paid from a source other than Attorney Welch.”

Welch could not be reached late Thursday.

In early December, Mollis adopted a decision stating that Corso engaged in unregistered lobbying in 2010. The decision required him to retroactively register or face a \$2,000 fine. Corso is fighting the decision in another Superior Court proceeding, calling the hearing process “an abuse of discretion.”

Newly elected Secretary of State Nellie Gorbea has hired former U.S. Attorney Robert C. Corrente to defend the state in that proceeding.

Procaccini’s decision notes that \$18,000 is “substantially less” than the total legal costs incurred by Corso’s team. He noted it would not be fair for all fees to be covered since not all fees were incurred after and because of Welch’s filing.

“As the court’s decision states, the \$18,000 sanction award is substantially less than the total legal fees incurred in this matter. The court’s award, therefore, does not make our client whole,” said Michael Lepizzera, an attorney representing Corso.

“That being said, we respect Judge Procaccini’s decision and expect that the award will finally bring to conclusion a case that the court previously found should have never been filed against Mr. Corso in the first place.”

Throughout the hearing process, Mollis, who left office this year, faced consistent criticism from Corso’s attorneys, who argued the hearings were political. Mollis, who was engaged in an ultimately unsuccessful bid for lieutenant governor, denied that assertion.

In his decision last month, Procaccini said the case’s timeline combined with Mollis’ candidacy left him “several large steps past concerned” about the intentions behind the filing.

Mollis was not personally sanctioned as Procaccini said there was no evidence that Mollis knew the petition was legally flawed.



RI Secretary of State hires former US Attorney to handle Corso case

By Tim White

Published: January 21, 2015, 9:58 am | Updated: January 21, 2015, 6:38 pm

PROVIDENCE, R.I. (WPRI) – Rhode Island Secretary of State Nellie Gorbea has hired former Rhode Island U.S. Attorney Robert Corrente to handle a complaint filed by a Providence attorney who was fined for not registering as a lobbyist for 38 Studios.

Michael Corso [filed a complaint against the secretary of state's office \(http://wpri.com/2015/01/06/corso-appeals-38-studios-lobby-violation-decision-with-courts/\)](http://wpri.com/2015/01/06/corso-appeals-38-studios-lobby-violation-decision-with-courts/) in Rhode Island Superior Court earlier this month, asking a judge to overturn a hearing officer's decision that Corso should have registered as a lobbyist. The inquiry was ordered by former Secretary of State Ralph Mollis after [a Target 12 investigation \(http://wpri.com/2014/05/05/target-12-investigation-triggers-ri-probe-of-38-studios-lobbying/\)](http://wpri.com/2014/05/05/target-12-investigation-triggers-ri-probe-of-38-studios-lobbying/). Mollis left office this month and was succeeded by Nellie Gorbea.

At the time of the filing, Corso's attorneys said the state had 30 days to file a response to the complaint.

In a statement Gonzalo Cuervo, a spokesperson for Gorbea, said the new secretary of state is engaging Corrente "to respond to a complaint filed by Mr. Michael Corso in Superior Court against former Secretary Mollis and this office."

"Secretary of State Gorbea is conducting a thorough review of the matter and of all laws and regulations pertaining to lobbying," Cuervo said in the statement. "She is committed to protecting the interests of the people of Rhode Island and ensuring transparency."

Cuervo said Corrente is working at a reduced rate of \$275 an hour and for now, is being retained to handle just the Corso matter.

Corrente was nominated by President George W. Bush to be U.S. Attorney in Rhode Island in 2004. He served for five years, overseeing all federal criminal and civil cases in the district.

The highest-profile case of Corrente's tenure was dubbed "Operation Dollar Bill," a sweeping probe into corruption within the Rhode Island General Assembly.

Then-state Sen. John Celona – who eventually cooperated with the investigation – and former House Majority Leader Gerard Martineau both pleaded guilty to corruption related charges and were sentenced to prison.

Since 2009 Corrente has practiced at Boston-based firm Burns and Levinson, which also has an office in Providence.

Corrente is also an occasional on-air legal analyst for Eyewitness News.

Corso was subject to several hearings at the State House in July following Target 12's report (<http://wpri.com/2014/05/05/target-12-investigation-triggers-ri-probe-of-38-studios-lobbying/>) that revealed no one from Curt Schilling's now-defunct video game company had registered to lobby the executive branch or the legislature. Target 12 also obtained a contract that showed the company pledged to pay Corso \$300,000 to, among other duties, interact with government officials.

Then-Secretary of State Mollis selected attorney Louis DeSimone to preside over an investigation as an impartial hearing officer.

In November, DeSimone found Corso should have registered as a lobbyist (<http://wpri.com/2014/09/19/review-corso-should-have-filed-as-38-studios-lobbyist/>). A month later Mollis adopted the decision, ordering Corso to retroactively register or face a \$2,000 fine (<http://wpri.com/2014/12/05/mollis-providence-attorney-was-lobbyist-for-38-studios/>).

Corso's attorneys, Michael Lepizzera and Anthony Traini, accuse DeSimone of inappropriate communications with Mollis outside the hearing. They cite a letter Mollis sent to DeSimone asking for more clarification on the decision and a response by DeSimone. Corso's attorneys were not copied on those letters.

Former 38 Studios board member Thomas Zaccagnino and Curt Schilling are both subjects to administrative proceedings into lobbying launched by Mollis. Cuervo said both matters are under review by the secretary of state.

Tim White (twhite@wpri.com (<mailto:twhite@wpri.com>)) is the Target 12 (http://www.wpri.com/subindex/target_12) investigative reporter for WPRI 12 and Fox Providence. Follow him on Twitter: [@white_tim](http://twitter.com/#!/white_tim) (http://twitter.com/#!/white_tim)

R.I. hires former U.S. Attorney Corrente to defend state over Corso complaint

Published: January 22, 2015 01:00 AM

By JENNIFER BOGDAN Journal State House Bureau jbogdan@providencejournal.com

PROVIDENCE — Secretary of State Nellie Gorbea has hired Robert C. Corrente, a former U.S. Attorney, to defend the state in a complaint filed by attorney Michael Corso in connection with a determination that he engaged in unregistered lobbying for 38 Studios.

Former Secretary of State A. Ralph Mollis determined last year that Corso should have registered as a lobbyist in 2010. The decision called for him to file the retroactive paperwork or face a \$2,000 fine.

Corso's attorneys then appealed through a Superior Court complaint filed on Jan. 2 that called the hearing process unlawful and "an abuse of discretion." The complaint is filed against Mollis and the secretary of state's office, now occupied by Gorbea.

Corrente was a U.S. Attorney in Rhode Island for five years. He currently practices law with the Burns and Levinson law firm.

Gonzalo Cuervo, a spokesman for Gorbea, said Corrente will be paid \$275 an hour, specifically for working on Corso's complaint.

Asked why the state needed to hire someone to deal specifically with the complaint, Cuervo said, "The secretary of state's office does not have in-house legal counsel at this time."

Corso is seeking the court's permission for an evidentiary hearing to investigate irregularities with Mollis' administrative proceedings. He also wants Mollis' order to be reversed.



Developer enters into agreement to buy parcel of 195 land

By Diana Pinzon

Published: January 21, 2015, 6:19 pm | Updated: January 21, 2015, 6:47 pm

PROVIDENCE, R.I. (WPRI) – The 195 Redevelopment Commission has announced that a developer has entered into a purchase and sales agreement for one of the parcels of land freed up by the highway's relocation project.

Royal Oaks Realty Ventures is looking to build on a third of an acre known as Parcel 8 that sits at the intersection of South Main Street and Pike Street.

It has proposed a \$20 million development project that includes a seven story mixed use building of about 75,000 square feet.

The building will accommodate office space in a building that links to the developer's existing property at 39 Pike Street.

The new project will include about 4,500 square feet of retail space at the corner of Pike and South Main Streets and 45-50 units of rental housing.

The proposal also includes an outdoor courtyard, a possible rooftop garden, bike racks, and street level activation that will reconnect the parcel with downtown and the waterfront.

This project is expected to generate roughly 150 construction related jobs and the building could hold 60-80 full time employees and 90 residents.

The next steps for Royal Oaks include developing detailed architectural and engineering drawings and moving through the 195 Commission's permitting process.

Construction is expected to start at the end of 2015, and be ready for occupancy by summer of 2017.